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SUBJECT: IMF GUARDEDLY OPTIMISTIC ABOUT BURUNDI 2008 BUDGET REVIEW

REF: A. A. BUJUMBURA 564
¶B. B. BUJUMBURA 556

¶1. (U) SUMMARY: The International Monetary Fund (IMF) representative to Burundi called a meeting of the principal donor representatives to review the progress the Government of Burundi (GOB) is making in terms of meeting conditional provisions of the Poverty Reduction and Growth Facility. The agreement to extend the current Facility by three years must be signed by January 15. While the GOB has made progress on resolving the long-standing political impasse which blocked legislative action over the past several months, the IMF requests donors to maintain a common front on pushing for the reforms needed to meet Facility guidelines in a timely manner, so that Burundi can continue to receive budgetary support from donor nations. END SUMMARY

¶2. (U) On October 3, 2007, IMF resident representative Israel de la Piedra invited Burundi's principal donor partners to review recent GOB progress on key economic and political issues. Progress is a condition for the release of budget assistance from the World Bank, Holland, France, Norway and the EU to cover the budget deficit for 2007. Principals at the meeting included the Ambassadors from France, Germany, Belgium; the Charges from the EU and the Netherlands; the DFID Country Representative; and the World Bank resident representative. The US was represented by the USAID Country Representative.

¶3. (U) De la Piedra was generally upbeat about the progress the Ministry of Finance was making in finalizing the 2008 budget. This will be a key document which the Minister of Finance will be bringing to the IMF budget review to be conducted next week in Washington. Should the results of that review confirm recent progress has been sufficient to continue with a more in-depth analysis that will likely lead to timely finalization of the agreement in January, the IMF will dispatch a team to Burundi during the 26 October to 7 November period.

¶4. (U) The major budget issue facing the GOB, according to De la Piedra, is the need to begin in earnest the International Bank for Reconstruction and Development (IBRD) assisted defense demobilization. He sees the planned reduction of approximately 8,000 soldiers and police officers by March as essential to freeing funds for the 34% civil service salary increase promised by Burundi President Nkurunziza last May. De la Piedra was informed by General Silas Ntigurirwas, National Director of the Disarmament, Demobilization, and Reintegration (DDR) program, that 300 soldiers and 600 police are to start the demobilization process next Monday, October ¶18. While previous delays in the demobilization program have caused Burundi's partners to be cautious about predictions of progress, De la Piedra expressed optimism.

¶15. (U) In addition to progress on the budget, the IMF is insisting that the GOB address the structural problems in the GOB that gave rise to the Interpetrol scandal (ref A), as well as make every effort to recover the missing money and initiate the judicial process against the perpetrators of the fraudulent payment. De la Piedra insisted that it was not the intention of the IMF to become involved in the judicial process, but rather to seek legislative, regulatory, and procedural reforms to assure that such a scam could not be repeated easily. The IMF also believes that the GOB should make every reasonable effort to apprehend, try, and punish the guilty parties. While the IMF admits that it is unlikely that the judicial process will be complete prior to concluding the extension of the Facility, the IMF insists that the GOB initiate the legal process.

¶16. (U) The IMF is also actively seeking movement of six billion Burundian Francs (5.45 million USD) that was in an Interpetrol-owned account in the Banque du Commerce du Burundi (BCB) to a holding account within the Central Bank until the judicial process is completed. The IMF considers money in any commercial bank at risk and does not believe that a commercial bank should be using this money as a guarantee for their lending operations. So far the IMF has succeeded in getting the money transferred out of the Interpetrol account into another account within the BCB, owned by the Ministry of Justice, but have not yet been able to convince the GOB to transfer the funds to the Central Bank.

¶17. (U) Lastly, De la Piedra expressed satisfaction with recent efforts by President Nkurunziza to bring progress in resolving the political impasse that led to blockage of National Assembly (ref B). It appears that the Parliament will once again be able to debate and pass legislation

critical to structural reforms being promoted by the donor community, including measures on the Budget, Anti Money-Laundering, Public Offerings, Privatization, and Sale of Public Assets. The opening of this session will be reported septel.

¶18. (U) De la Piedra warned that a ministerial re-shuffle was imminent. He was hopeful that the current Minister of Finance, Clotilde Nizigoma, would not be removed, in the interest of maintaining momentum in coming to closure on all the financial reform actions currently underway within the Ministry of Finance. In his opinion, every day lost in transition to a new Minister will make it significantly more difficult to meet the tight deadlines surrounding the IMF/Washington review, the work of the IMF technical team due 26 October, and the IMF board consideration on January 15.

¶19. (U) While the USG does not provide budget support to the GOB, most of the donor partners participating in the meeting do. Most of that support is tied to the reforms being sought by the IMF and World Bank. Therefore, the progress being reported by De la Piedra was well received by the French, Belgians, EU, Dutch, British, and Germans. Comments from the group on De la Piedra's report focused mainly on the necessity to maintain a common front in discussing reform issues with the GOB. Progress in reaching agreement with the IMF becomes increasingly important as the end of the calendar year approaches, because most of the donors are unable to carry over 2007 budget support commitments into 2008.

¶10. (U) The message De la Piedra encouraged the group to pass along to their GOB counterparts was:

- Do whatever you need to do to help the Minister of Finance meet the review requirements.
- We are pleased at the progress made on the political reconciliation front.
- We support the legislation for structural adjustments noted above, required as part of the review process.
- Don't change the Minister of Finance during the cabinet re-shuffle.
- Approve the 2008 budget quickly.
- The six billion Burundian Francs from the Interpetrol

account needs to be moved from the BCB to a holding account
in the Central Bank now.

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